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SUBJECT: HONDURAN ECON HIGHLIGHTS: SEPTEMBER 2002

REFS: A) TEGUCIGALPA 2563, B) TEGUCIGALPA 2207

TOPICS:

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Finance Ministry Unveils 2003 Budget Proposal

1. The Ministry of Finance projects that the GDP will grow by 2.5 percent in 2002 (most likely overstated) and that the central government's fiscal deficit as a percent of GDP will be 5.9 percent. This is higher than the GOH's earlier estimate of 5.6 percent of GDP and far higher than its target in its IMF program. The government is considering further tax measures to increase government revenues.

2. In September, the Ministry of Finance presented the 2003 budget proposal to the National Congress. The central government's budget of approximately 32.7 billion lempiras (usd 1.97 billion) represents a 10 percent increase in nominal terms over the 2002 levels. Spending on health, education and security account for 65 percent of the budget, while debt service payments (including usd 100 million for Paris Club debt) account for 17 percent. With improvements in tax receipts, the Ministry of Finance projects the central government fiscal deficit could fall to four percent of GDP; however, local economists are skeptical.

Maquila Sector: New Investment

3. The Honduran Maquila Association (AHM) reports that the industry is rebounding from losses incurred in 2001 and estimates that the value added in 2002 will total usd 660 million, an increase of usd 60 million over 2001 and equal to 2000 levels. Meanwhile, total employment in the sector in 2002 is projected to average 110,000, the same as 2001 but still lower than 2000 when the sector registered 125,000 workers.

4. Local press reported that in October South Korean company Woon Chun de Honduras will begin operation of an apparel assembly plant employing approximately 1,100 workers. Total new investment is estimated to be over usd 30 million. Meanwhile, Lear Corporation, a U.S. company producing wire harnesses for U.S. automakers, announced plans to increase investment by usd 10 million, generating an estimated 1,500 new jobs.

Remittances up by 38 Percent in 2002

5. Remittances from abroad (primarily the U.S.) have become the second largest source of national income, totaling usd 550 million in 2001, or 8.6 percent of GDP. The Central Bank announced that remittances in 2002 are increasing at a rate of 38 percent compared to 2001 and could total nearly usd 800 million by the end of the year. According to the Central Bank, an estimated usd 120 million is charged annually by money transfer companies for transactions between the U.S. and Honduras. The Central Bank has plans to institute a mechanism in late 2002 allowing people residing in the U.S. to transfer money to Honduras via selected corresponding banks. The new system could reduce transaction costs by 60 percent.

Banking System: Two Banks Intervened, New Laws Passed

16. The Central Bank disbursed approximately usd 40 million in May to intervene two undercapitalized banks, Banco Capital and Banco Sogerin. The money was given as a supplementary credit to Honduras' Deposit Insurance Institution (Fosede) in order to guarantee 100 percent of deposits. The two banks account for usd 120.7 million in deposits. Since the intervention, the National Banking Commission reported a six percent decline in Capital and Sogerin deposits - much lower than the expected 15 percent. Attorneys representing Sogerin and Capital appealed the interventions to the Supreme Court.

17. In August, the National Congress approved a law extending the 100 percent government deposit insurance until September 30, 2003. At that point deposit insurance will be capped at 150,000 lempiras (usd 9,000).

18. The National Congress approved a law in August tightening rules regulating related lending and investment by banks. According to the law, the cap on loans to related entities will decline from the current limit of 120 percent of the institution's capital to 30 percent over a three-year period. Per the law, banks are also limited from investing more than 20 percent of their total capital in any one particular outside business.

New Honduran Airline Commences Operations

19. Sol Air, the first Honduran airline to operate in nearly a decade, began operations on July 12 with two daily flights to Miami and an opening roundtrip fare of usd 399.00. From Miami, Sol Air offers service to Tegucigalpa and San Pedro Sula. TACA and American have responded to the new competition with deeply discounted fares over the summer and early fall. In November, the airline hopes to begin direct flights from Dallas to Roatan on Saturdays, serving primarily tourists interested in scuba diving and other island tourism. The company also hopes to fly to New Orleans (and on to Costa Rica), a routing pushed heavily by the Mayor of the city of New Orleans during his early July visit. Permits to fly to San Salvador and Managua are still pending.

InterAirports Under Attack, Although Issue is Quiet for Now

10. After a series of media attacks and complaints by private sector groups, Congress named a special commission in July to investigate InterAirports for possible breach of contract. The U.S.-led Interairports consortium (51 percent U.S. owned) took management control of Honduras' four international airports in October 2000. Critics charge that the San Francisco Airport Authority is not an active, full partner in the consortium (participation of a major airport was a requirement in the public tender and subsequent contract) and that the company has not followed through with investments. They have also been criticized for fee increases. InterAirports counters that the price increases were enacted by the National Congress and that fees for air cargo are still the lowest in the region. In addition, delays in contract-mandated investments, such as extending the runway at the Tegucigalpa airport, are the result of government delays and inaction. President Maduro and other government officials have publicly stated that Interairports has complied with the terms of the contract.

11. InterAirports' figures reveal that between October 2000 and May 2002, the company has invested usd 24.8 million in the four international airports. Interairports is planning to invest an additional usd 26.3 million in the airports over the next year. Planned projects include building a new hangar in Tegucigalpa and renovating and expanding the terminal at the La Ceiba airport.

Administrative Simplification Law Passed

12. In August, the National Congress approved the Administrative Simplification Law which reduces the bureaucratic hurdles in establishing a business in Honduras. The law, which was drafted by the Competitiveness Council, is part of the government's plan to make Honduras a more attractive place for foreign investment. Some of the benefits of the law include simplifying procedures involved in establishing a new business and placing time limits on issuing government permits.

Prequalification Process for Cellular Contract Underway

13. On September 9, Honduras' telecommunications regulatory

agency (CONATEL) held an open pre-qualification process for companies planning to bid on the Honduran cellular service contract. Two U.S. companies, Bell South Honduras and Digicel Honduras (U.S. partners with Salvadoran and Italian investment) participated. Other potential contenders include Telmex, TelGuat, Entel Chile and Megatel (Honduran). Conatel will officially announce which companies qualify by October 8, 2002. The final bid opening is forecast for sometime in January 2003. There is currently one cellular service provider in Honduras, U.S. led consortium Celtel. (See ref a for more on the prequalification process.)

Energy Sector Update: ENEE Opens Bids for 210 MW Contract

14. The National Electric Company (ENEE) opened bids on July 26 for a 210 MW contract to begin in 2004. AES is the only U.S. competitor along with five other major energy companies including local investors. AES and national thermal energy producer Lufussa submitted the lowest bids (just over usd 0.05 per KWH). AES has plans to build a usd 650 million 750 MW liquid natural gas-fired power plant in Puerto Cortes. (See ref b for more on the bid.)

15. In response to environmental concerns voiced by local environmental groups and government authorities, local energy company HydroHonduras revamped plans to build a hydroelectric project on the Cangrejal River near La Ceiba. The new design reduces the planned capacity from 50 MW to 40 MW and reduces total investment to usd 71 million. U.S. energy company Alaska Power and Telephone reportedly has a 32 percent share of the project. The Cangrejal river forms the eastern boundary of Pico Bonito, Honduras' second largest national park. Proponents of tourism in the area are concerned that the plan to build an 11 km. diversion canal will effectively end white water rafting on the Cangrejal and thus jeopardize efforts to attract additional tourism to nearby La Ceiba.

Coffee Export Revenues Increase Slightly

16. According to the Honduran Coffee Institute (Ihcafe), coffee export revenues for the 2001-2002 coffee harvest totaled approximately usd 179 million, an increase of usd 10 million compared to the 2000-2001 harvest. Honduras exported an estimated 3.5 million quintals (1 quintal = 100 lbs.) during the 2001-2002, an increase of 300,000 quintals compared to the 2000-2001 season.

17. In response to the dismal international market for coffee, hundreds of small coffee farmers demonstrated in Tegucigalpa in August. The demonstrators demanded financial assistance to help defray losses suffered during this year's coffee harvest. Maduro, bowing somewhat to pressure, agreed to have the state banks small producers 100 lempira (about usd six) loans per quintal produced up to 100 quintals. The 15-year loans have a three-year grace period.

Chiquita Resumes Banana Production After Strike

18. Chiquita's 2,200 employees returned to work following the resolution of a nine-day strike during May. Union leaders took issue with Chiquita's use of pesticide-treated bags to combat the cochinita insect. Chiquita reports that the cochinita insect affects 30% of the crop. Union leaders also presented a list of demands regarding job security, salary and medical care. Workers returned to work after an international scientific commission certified that Chiquita's pesticides are safe. Chiquita has publicly stated that, in light of the strike, high absenteeism and low productivity rates, it is considering reducing its presence in Honduras and selling some of its farms to independent producers.

Mangos Exported to the U.S. for the First Time

19. A USDA-built hot water treatment plant for mangos began operating in April, permitting Honduran mango producers for the first time to meet U.S. med-fly phytosanitary requirements. A total of 18 containers were exported during April and May at a value of approximately usd 500,000. Reportedly 45 percent of the fruit brought to the plant for treatment was rejected, primarily for being undersized, damaged during shipment or for being too ripe. Between 700 and 800 hundred hectares of mango are cultivated in the Comayagua valley in central Honduras. Honduras is projected to export approximately 30 containers of mangos in 2003 worth nearly usd two million. Legislation creating the cooperative (which will own and manage the facility) has been moving slowly through Congress. The GOH is looking into ways to use the plant during other times of the year, for papaya and other fruits.

USG Donates Equipment to Benefit Small Dairy Farmers

120. In May, 12 dairy farmer cooperatives were given the titles to dairy refrigeration tanks valued at over usd 300,000. The tanks were donated by the USG as a result of cooperation between USAID and the U.S. firm Land O'Lakes. USAID will provide another usd 5.5 million in technical assistance, training and equipment with the goal of modernizing Honduras' dairy sector. Nearly 500,000 Hondurans rely upon the dairy sector for their livelihood.

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